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Netlist's (NLST) CEO Chuck Hong on Q1 2017 Results - Earnings Call Transcript

May 16, 2017 11:05 PM ET | Netlist, Inc. (NLST) | 2 Comments

Q1: 2017-05-16 Earnings Summary



10-Q

EPS of -\$0.05 **beats by \$0.01** | Revenue of \$9.43M (104.91% Y/Y) **beats by \$1.26M**

Netlist, Inc. ([OTCQB:NLST](#)) Q1 2017 Earnings Conference Call May 16, 2017 5:00 PM ET

Executives

Mike Smargiassi - Investor Relations

Chuck Hong - Chief Executive Officer

Gail Sasaki - Chief Financial Officer

Analysts

Gary Mobley - Benchmark

Jamison Phillips-Crone - B. Riley Financial

Now, moving to HybriDIMM, our first generation DDR4 LRDIMM storage class memory product. The development team continues to make progress with a near-term goal of providing HybriDIMM samples to key customers in the months ahead. We are also engaged in preliminary discussions with potential partners who have shown interest in participating in the commercialization of HybriDIMM. Momentum continues to grow across the industry for storage class memory, a market which is expected to grow to multibillions of dollars over the next few years. With HybriDIMM as a standard LRDIMM product, we believe we are in a good position to take advantage of this emerging trend. We look forward to continuing our efforts with partners and customers on HybriDIMM in the months ahead.

In summary, we believe we are well-positioned for continued business momentum in 2017. With a base of innovative engineering solutions and intellectual property assets accumulated over many years, as well as the Samsung partnership, we continue to work towards maximizing return to our shareholders via both product revenue and licensing.

I will now turn the call over to Gail for the financial review.

Gail Sasaki

Thanks, Chuck. As noted earlier, we delivered improvement in first quarter revenue and marking the sixth quarter in a row of year-over-year increases. Revenues for the first quarter ended April 1, 2017 were \$9.4 million compared to revenues of \$4.6 million for the 2016 period, an increase of 105%. The year-over-year increase in revenue primarily reflects the multiple benefits of our Joint Development Agreement with Samsung, which added the synergistic Samsung high-end memory products to our product offering. On a consecutive quarterly basis, product revenue improved by 70%.

First quarter 2017 gross profit was \$680,000 compared to \$3.5 million in the year-ago period, reflecting product mix and the inclusion of \$3.4 million of nonrecurring high-profit engineering revenues in the year-ago quarter. Net loss for the first quarter was \$3.3 million compared to net loss in the prior year period of \$1.4 million. The increased net loss between periods primarily reflects the same high-margin engineering revenues from Phase 1 of the Samsung Joint Development Agreement in the year-ago period.

Adjusted EBITDA loss after adding back net interest expense, income taxes, depreciation, stock-based compensation and net non-operating expense was a loss of \$2.9 million in first quarter 2017 compared to an adjusted EBITDA loss of \$800,000 for the prior year period. Operating expenses were \$3.8 million in the first quarter compared to \$4.7 million in the last year's first quarter. Expenses declined on an absolute basis across R&D, legal and SG&A.

We ended the quarter with cash and cash equivalents and restricted cash of \$10.9 million as compared to \$12.6 million at the end of the fourth quarter. As expected, we saw a reduction in quarterly cash burn between quarters due to careful management of the overall cash cycle as well as contribution from increased product revenues. Going forward, we will also benefit from the financial arrangement with TRGP which will fund the legal expenses incurred since the beginning of the year related to the proceedings against SK Hynix.

During the first quarter, we realized an income statement and balance sheet benefit from the TRGP arrangement of approximately \$4.2 million reduction in legal expense. TRGP's cumulative investment will be reimbursed only upon a successful settlement with SK Hynix, which we consider a strong vote of confidence in our legal position. The working capital line of credit with Silicon Valley Bank has a total capacity of \$5 million, capped by 80% of eligible accounts receivable, and we continue to leverage the facility for working capital to support the growth in the product business volume, due mainly to the special access to Samsung high-performance memory modules.

Finally, I would like to announce that we will be presenting at B. Riley and Co.'s 18th Annual Investor Conference in Santa Monica next Wednesday, May 24, at 8:30 a.m. Pacific Time. We look forward to seeing many of you there.

Thank you for listening. And operator, we are now ready for questions.

Question-and-Answer Session

Operator

[Operator Instructions] And our first question comes from Gary Mobley of Benchmark. Please go ahead.

Gary Mobley